

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 SEC-03 SS-14 NSC-10 AID-20 CEA-02

CIAE-00 COME-00 EB-11 EA-11 FRB-02 INR-09 IO-13

NEA-10 NSAE-00 RSC-01 TRSE-00 CIEP-02 SAL-01 OMB-01

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TO SECSTATE WASHDC 9018

UNCLAS SECTION 1 OF 2 OECD PARIS 6010

E. O. 11652: N/ A

TAGS: EFIN, OECD

SUBJECT: 10 TH SESSION COMMITTEE ON FINANCIAL MARKETS

REF: (A) CMF/ A (73)1 (B) CMF(73)4 AND ADDENDUM

(C) CMF (72)1 8 FIRST REV. (D) CMF (73)3

1. SUMMARY. COMMITTEE ON FINANCIAL MARKETS MET 1-2 MARCH 1973 TO DISCUSS QUESTIONS AND DOCUMENTS REF (A). IT ELECTED NEW CHAIRMAN (LIEFRINCK- NETHERLANDS) AND TWO VICE- CHAIRMEN (EKLOF- SWEDEN, PARTEE- U. S.). MAJOR ATTENTION OF TWO- DAY MEETING CENTERED ON DEVELOPMENTS IN MEMBER COUNTRY STOCK EXCHANGES, INDEXATION OF FIXED INTEREST SECURITIES, AND PROBABLE EFFECTS OF REMOVAL OF U. S. CAPITAL CONTROL PROGRAMS. SECRETARIAT WILL REVISE COMMITTEE' S REPORT CONCERNING INDEXATION OF FIXED INTEREST SECURITIES FOR FINAL CONSIDERATION AT NEXT MEETING, AND WILL PREPARE INITIAL ANALYTICAL REPORT ON LINKAGE OF NATIONAL CAPITAL MARKETS BASED ON COUNTRY RESPONSES TO QUESTIONNAIRE. NEXT MEETING SET FOR 5-6 JULY 1973. END SUMMARY.

2. FINANCIAL STRUCTURE- GENERAL: LENGTHY DISCUSSION OF STRUCTURAL CHANGES IN MEMBER COUNTRY FINANCIAL SYSTEMS (BASED ON REF D) POINTED TO RECENT TRENDS IN STOCK MARKETS OF MEMBER COUNTRIES WHICH REQUIRE CAREFUL ATTENTION. THESE INCLUDE GROWING IMPORTANCE OF INSTITUTIONAL INVESTORS AND INTRODUCTION OF MODERN DATA-
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PROCESSING METHODS. LATTER WILL INFLUENCE PROVISION OF INFORMATION TO INVESTORS AND RECORD- KEEPING AS WELL AS TECHNICAL CONDITIONS OF TRADING ON SECURITIES MARKETS. SOME REPS SUGGESTED THAT COMPUTER TECHNOLOGY WOULD FACILITATE TRADING OUTSIDE EXISTING MARKETS AND BE COMPETITIVE WITH THOSE MARKETS. OTHERS FELT THAT SUCH TECHNOLOGY COULD SUPPORT GROWTH OF SINGLE NATIONWIDE EXCHANGES.

IT WAS NOTED THAT KEY PROBLEM ARISING IN MANY COUNTRIES IS THAT OF FINDING MEANS TO ACCOMMODATE NEEDS OF INDIVIDUAL INVESTORS AND INSTITUTIONAL INVESTORS WITHIN SAME MARKET. DEVELOPMENT OF FRENCH OVER THE COUNTER (OTC) MARKET MENTIONED IN REFD0C WAS SHOWN

TO BE MAINLY TO ASSIST LATTER, AND WAS NOT EXPECTED TO FOLLOW U. S. PATTERN. FRENCH OTC MARKET WILL BE MORE EQUIVALENT TO WHAT IS KNOWN AS MOONLIGHT OR AFTERHOURS MARKET. MUCH INTEREST NEW SEC OFFICE.

3. U. S. CONTROL PROGRAMS: COMMITTEE SHOWED GREAT INTEREST IN QUESTIONS RAISED REF (B) CONCERNING EXPECTED REMOVAL OF IET AND FDIP. SECRETARIAT, EEC REPRESENTATIVE AND SEVERAL OTHERS ESPECIALLY INTERESTED U. S. PLANS FOR PHASING OF REMOVAL AND PROBABLE

IMPACT ON DEBT OVERHANG. TWO ASPECTS OF OVERHANG NOTED: EXISTING FOREIGN DEBT OF U. S. FIRMS AND POSSIBLE PENTUP U. S. DEMAND FOR FOREIGN SECURITIES. EEC REPRESENTATIVE SUGGESTED THAT 1963-70 DATA INDICATE THAT IET REDUCED U. S. BOND PURCHASES ABROAD; PRESUMABLY LIFTING OF IET WOULD STIMULATE FURTHER OUTFLOWS. HOWEVER, COMMITTEE GENERALLY FELT IT TOO EARLY TO MAKE QUANTITATIVE ESTIMATES OF IMPACT OF REMOVAL OF U. S. CONTROLS.

MANY REPS SUGGESTED THAT PLANNED REMOVAL OF U. S. CONTROL PROGRAMS DEPENDED UPON VERY OPTIMISTIC PROJECTION OF WHAT WILL HAPPEN TO U. S. BALANCE OF PAYMENTS OVER ENSUING TWO YEARS. THEY WONDERED WHETHER OR NOT ALTERNATE CAPITAL OR OTHER CONTROLS MIGHT BE NECESSARY IF U. S. CURRENT ACCOUNT DOES NOT IMPROVE AS EXPECTED. U. S. DELEGATION SUGGESTED THAT GOOD RELATIVE PERFORMANCE OF U. S. ECONOMY , TOGETHER WITH EXPECTED IMPROVEMENT IN INTERNATIONAL MONETARY SYSTEM, WOULD ALLOW PROGRESSIVE REMOVAL OF CONTROLS EVERYWHERE.

VARIOUS TECHNICAL QUESTIONS AROSE CONCERNIN QUESTIONS SUCH AS WHETHER OR NOT U. S. INVESTORS COULD BUY UP DOLLAR EUROBOND ISSUES UNDER DIRECT INVESTMENT CONTROL PROGRAM WITHOUT THEIR BEING FIRST REGISTERED WITH SEC. U. S. DELEGATION SAID U. S. INVESTORS COULD PURCHASE AT SUCH TIME, BUT NOT AS RESULT OF UNCLASSIFIED

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ORGANIZED EFFORT ON PART OF BROKERS TO SELL SUCH SECURITIES IN
U. S. THERE WAS CONSIDERABLE SPECULATION CONCERNING WHETHER OR NOT
U. S. FIRMS WOULD CONTINUE TO RAISE FUNDS IN EUROBOND MARKET.
U. K. DELEGATE THOUGHT THAT ONLY RELATIVELY SMALL AMOUNT OF
EUROPEAN
UNDERWRITING BUSINESS WOULD BE LOST TO NEW YORK . U. S. DELEGATE
SUGGESTED THAT AMOUNT OF EURO- BORROWING DONE BY U. S. FIRMS AFTER
REMOVAL OF PROGRAM WOULD DEPEND UPON RELATIVE RATES, COSTS AND
CONDITIONS IN U. S. AND ABROAD, AND USE TO WHICH FUNDS WERE
EXPECTED TO BE PUT.

4. FINANCIAL STRUCTURE- JAPAN: JAPANESE REP CONFIRMED THAT JAPAN
EXPECTS TO INTRODUCE FIRST FOREIGN SHARES ON TOKYO STOCK EXCHANGE
IN APRIL, 1973. HOLDUP IS DUE TO NEED TO DEVELOP GUIDELINES ON
ANNUAL REPORT.../...
BROWN

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ACTION EUR-25

INFO OCT-01 ADP-00 SEC-03 SS-14 AID-20 CEA-02 CIAE-00

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UNCLAS SECTION 2 OF 2 OECD PARIS 6010

E. O. 11652: N/ A
TAGS: EFIN, OECD
SUBJECT: 10 TH SESSION COMMITTEE ON FINANCIAL MARKETS

REQUIREMENTS IN JAPANESE LANGUAGE. ALSO, GUIDELINES CONCERNING
REQUIRED NUMBER OF JAPANESE SHAREHOLDERS FOR LISTING NOT YET

COMPLETED.

JAPANESE REP ALSO NOTED THAT THERE IS ABSOLUTE SEPARATION BETWEEN BANKS AND SECURITY COMPANIES IN JAPAN. SEVERAL REPS COMPLAINED THAT JAPANESE SECURITY DEALERS WERE APPARENTLY CUTTING COMMISSIONS AND UNDERTAKING OTHER RELATED TACTICS ON EUROBOND MARKET.

HOWEVER,

POINT WAS NOT DISCUSSED AT LENGTH. SECRETARIAT DISTRIBUTED NEW ADDENDUM TO JAPANESE SECTION OF REF (B). JAPANESE REP PROPOSED NUMBER OF CHANGES WHICH WILL BE INCORPORATED IN REVISED ISSUE.

5. -- INDEXATION OF FIXED INTEREST SECURITIES.-- THERE WAS SURPRISINGLY LARGE AMOUNT OF INTEREST IN THIS TOPIC, SOME REPS INDICATING STRONG SUPPORT FOR DRAFT REPORT (REF C). OTHERS FELT THAT REPORT SHOULD BE SUBSTANTIALLY REVISED TO GIVE MORE ATTENTION TO POSITIVE AS WELL AS NEGATIVE ASPECTS OF QUESTION. IT WAS AGREED REPORT WILL BE REVISED TO GIVE MORE EQUAL TREATMENT TWO OPPOSING VIEWS. HOWEVER, THERE WAS STRONG SENTIMENT AGAINST PUBLICATION.

COMMITTEE

EXPECTS TO HAVE FINAL REPORT READY FOR CONSIDERATION AT ITS NEXT MEETING, AFTER WHICH IT EXPECTS TO SEND REPORT TO COUNCIL WITH RECOMMENDATION THAT OFFICIALS OF NATIONAL GOVERNMENTS CONSIDER

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ISSUES RAISED IN REPORT WHENEVER QUESTION OF INDEXATION OF FIXED SECURITIES ARISES.

U. K. REP INDICATED THAT PAGE COMMITTEE IN U. K. IS STUDYING QUESTIONS OF SMALL INVESTOR PROTECTION. THUS FAR NO INFORMATION IS AVAILABLE CONCERNING EXTENT TO WHICH QUESTION OF INDEXATION OF FIXED INTEREST SECURITIES WILL BE ANALYZED. HE EXPECTED SOMETHING WOULD BE SAID ON SUBJECT.

6. -- CAPITAL MOVEMENTS CODE:-- DURING FAIRLY HEATED DISCUSSION UNDER AGENDA ITEM 4, SWISS REPRESENTATIVE NOTED HIS STRONG SUPPORT FOR WORK OF EXCOM NEW STYLE. HE ALSO RAISED QUESTION OF WHETHER EXISTING CAPITAL CODE WAS ADEQUATE TO COVER QUESTION OF DESTABILIZING CAPITAL FLOWS. SEVERAL MEMBERS, HOWEVER, GAVE STRONG SUPPORT TO EXISTING CAPITAL MOVEMENTS CODE, INDICATING THAT IT WAS NOT MEANT TO HANDLE PROBLEMS RAISED BY RAPID MOVEMENTS OF EXTREMELY MOBILE CAPITAL, OR PROBLEMS OF SPECULATIVE CHANGES IN COMMERCIAL LEADS AND LAGS. THEY BELIEVED CODE WAS REASONABLY EFFECTIVE FOR ITEMS IT IS EXPECTED TO COVER, AND ANY EFFORT TO REPLACE IT WITH BROADER CODE OR GENERAL GUIDELINES WOULD BE MOVE IN WRONG DIRECTION. SWISS REPRESENTATIVE AGREED THAT CODE REMAINS AN IMPORTANT INTERNATIONAL UNDERTAKING. HOWEVER, HE FELT THERE WAS NEED FOR MORE COORDINATION ON QUESTIONS

OF POLICY CONCERNING MOBILE CAPITAL.

7. -- REMAINING AGENDA ITEMS:--

ITEM 6- QUESTIONNAIRE WAS APPROVED WITHOUT MAJOR CHANGES.
FINAL EDITION WILL BE DISTRIBUTED TO DELEGATIONS FOR THEIR RESPONSE.

ITEM 7 - MOST COUNTRIES HAVE SUBMITTED COMPLETED QUESTIONNAIRES.
REMAINING COUNTRIES WERE ASKED TO MAKE THEIR SUBMISSIONS AS SOON
AS POSSIBLE. SECRETARIAT WILL OBTAIN MORE COMPLETE INFORMATION
FROM THOSE COUNTRIES WHOSE SUBMISSIONS WERE INADEQUATE AND WILL
THEN PREPARE ANALYTICAL REPORT FOR CONSIDERATION AT NEXT MEETING.

ITEM 9 - SECRETARIAT WAS REQUESTED TO MAKE SEVERAL ADDITIONAL
CHANGES IN CMF (73)5, WHICH WILL BE HELD OVER FOR FURTHER DISCUSSION
AT NEXT MEETING IN CONTEXT WITH PRESENT AGENDA ITEMS 7 AND 5(A).

ITEM 10 - REPORT IS EXPECTED FROM WORKING PARTY ON ADMISSION OF
SECURITIES TO STOCK EXCHANGES PRIOR NEXT MEETING OF CMF.
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QUESTION OF WHETHER OR NOT WORKING PARTY 3 ON INSTITUTIONS FOR
COLLECTIVE INVESTMENT SHOULD BE REACTIVATED WAS LEFT UNDECIDED.
SECRETARIAT REPORTED THAT PROFESSOR ROLFE HAD UNDERTAKEN
CONSULTANT
STUDY ON INTERNATIONAL MEDIUM- TERM BANK CREDIT. IT WAS HOPED
THAT REPORT WOULD BE AVAILABLE TO COMMITTEE BY ITS NEXT MEETING.

8. U. S. DELEGATION INCLUDED CHARLES PARTEE (FRB), RALPH KOPF
(TREASURY) AND JOHN TANNER (USOECD). NEXT MEETING OF COMMITTEE
SCHEDULED FOR JULY 5-6, 1973. BROWN

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